



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities

[REDACTED]

[REDACTED]

[REDACTED]

Release Number: 202642016

Release Date: 10/16/26

UIL Code: 501.07-00

CERTIFIED MAIL - Return Receipt Requested

Dear [REDACTED]:

Why we are sending you this letter

This is a final determination that you don't qualify for exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(7), for the tax periods above. Your determination letter dated [REDACTED] is revoked.

Our adverse determination as to your exempt status was made for the following reasons: Your organization is similar to the non-exempt organization described in Rev. Rul. 58-589. You do not meet the definition of a "club" described in IRC Section 501(c)(7) because a substantial part of your activities is not devoted to providing opportunities for members to engage in fellowship and commingling. Instead, your organization is formed to maintain and preserve a residential neighborhood and to provide services to property owners and/or members, including recreational-type activities. Additionally, your organization is similar to the organization described in Rev. Rul. 75-494, in that a substantial part of its activities involves the maintenance of a residential area and the exercise of architectural control over residential properties. Accordingly, because your activities are not primarily directed toward social and recreational purposes for members, your organization does not qualify for exemption under IRC Section 501(c)(7).

Organizations that are not exempt under IRC Section 501 generally are required to file federal income tax returns and pay tax, where applicable. For further instructions, forms and information please visit **IRS.gov**.

What you must do if you disagree with this determination

If you want to contest our final determination, you have 90 days from the date this determination letter was mailed to you to file a petition or complaint in one of the three federal courts listed below.

How to file your action for declaratory judgment

If you decide to contest this determination, you can file an action for declaratory judgment under the provisions of Section 7428 of the Code in either:

- The United States Tax Court,
- The United States Court of Federal Claims, or
- The United States District Court for the District of Columbia

Date:

Taxpayer ID number (last 4 digits):

[REDACTED]

Form:

[REDACTED]

Tax periods ended:

Person to contact:

Name:

ID number:

Telephone:

Fax:

Last day to file petition with United States Tax Court:

You must file a petition or complaint in one of these three courts within 90 days from the date we mailed this determination letter to you. You can download a fillable petition or complaint form and get information about filing at each respective court's website listed below or by contacting the Office of the Clerk of the Court at one of the addresses below. Be sure to include a copy of this letter and any attachments and the applicable filing fee with the petition or complaint.

You can eFile your completed U.S. Tax Court petition by following the instructions and user guides available on the Tax Court website at ustaxcourt.gov/dawson.html. You will need to register for a DAWSON account to do so. You may also file your petition at the address below:

United States Tax Court
400 Second Street, NW
Washington, DC 20217
ustaxcourt.gov

The websites of the U.S. Court of Federal Claims and the U.S. District Court for the District of Columbia contain instructions about how to file your completed complaint electronically. You may also file your complaint at one of the addresses below:

US Court of Federal Claims
717 Madison Place, NW
Washington, DC 20439.
uscfc.uscourts.gov

US District Court for the District of Columbia
333 Constitution Avenue, NW
Washington, DC 20001
dcd.uscourts.gov

Processing of income tax returns and assessments of any taxes due will not be delayed if you file a petition for declaratory judgment under IRC Section 7428.

The IRS office whose phone number appears at the top of the notice can best address and access your tax information and help get you answers. However, you may be eligible for free help from the Taxpayer Advocate Service (TAS) if you can't resolve your tax problem with the IRS or if you believe an IRS procedure just isn't working as it should. TAS is an independent organization within the IRS that helps taxpayers and protects taxpayer rights. Visit TaxpayerAdvocate.IRS.gov/contact-us or call 877-777-4778 (TTY/TDD 800-829-4059) to find the location and phone number of your local advocate. Learn more about TAS and your rights under the Taxpayer Bill of Rights at TaxpayerAdvocate.IRS.gov. Do not send your Tax Court petition to TAS. Use the Tax Court address provided earlier in the letter. Contacting TAS does not extend the time to file a petition.

Where you can find more information

Enclosed are Publication 1, Your Rights as a Taxpayer, and Publication 594, The IRS Collection Process, for more comprehensive information.

Find tax forms or publications by visiting IRS.gov/forms or calling 800-TAX-FORM (800-829-3676). If you have questions, you can call the person shown at the top of this letter.

If you prefer to write, use the address shown at the top of this letter. Include your telephone number, the best time to call, and a copy of this letter.

You may fax your documents to the fax number shown above, using either a fax machine or online fax service. Protect yourself when sending digital data by understanding the fax service's privacy and security policies.

Keep the original letter for your records.

Sincerely,

A solid black rectangular box used to redact the signature of the Director.

Director, Exempt Organizations Examinations

Enclosures:
Publication 1
Publication 594
Publication 892



Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities

[Redacted]

[Redacted]

Date:

Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:

Name:

ID number:

Telephone:

Fax:

Address:

Manager's contact information:

Name:

ID number:

Telephone:

Response due date:

CERTIFIED MAIL – Return Receipt Requested

Dear [Redacted]

Why you're receiving this letter

We enclosed a copy of our audit report, Form 886-A, Explanation of Items, explaining that we propose to revoke your tax-exempt status as an organization described in Internal Revenue Code (IRC) Section 501(c)(7).

If you agree

If you haven't already, please sign the enclosed Form 6018, Consent to Proposed Action, and return it to the contact person shown at the top of this letter. We'll issue a final adverse letter determining that you aren't an organization described in IRC Section 501(c)(7) for the periods above.

If you disagree

1. Request a meeting or telephone conference with the manager shown at the top of this letter.
2. Send any information you want us to consider.
3. File a protest with the IRS Appeals Office. If you request a meeting with the manager or send additional information as stated in 1 and 2, above, you'll still be able to file a protest with IRS Appeals Office after the meeting or after we consider the information.

The IRS Appeals Office is independent of the Exempt Organizations division and resolves most disputes informally. If you file a protest, the auditing agent may ask you to sign a consent to extend the period of limitations for assessing tax. This is to allow the IRS Appeals Office enough time to consider your case. For your protest to be valid, it must contain certain specific information, including a statement of the facts, applicable law, and arguments in support of your position. For specific information needed for a valid protest, refer to Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status.

Fast Track Mediation (FTM) referred to in Publication 3498, The Examination Process, generally doesn't apply now that we've issued this letter.

4. Request technical advice from the Office of Associate Chief Counsel (Tax Exempt Government Entities) if you feel the issue hasn't been addressed in published precedent or has been treated inconsistently by the IRS.

If you're considering requesting technical advice, contact the person shown at the top of this letter. If you disagree with the technical advice decision, you will be able to appeal to the IRS Appeals Office, as explained above. A decision made in a technical advice memorandum, however, generally is final and binding on Appeals.

If we don't hear from you

If you don't respond to this proposal within 30 calendar days from the date of this letter, we'll issue a final adverse determination letter.

Contacting the Taxpayer Advocate Office is a taxpayer right

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. Visit www.taxpayeradvocate.irs.gov or call 877-777-4778.

Additional information

You can get any of the forms and publications mentioned in this letter by visiting our website at www.irs.gov/forms-pubs or by calling 800-TAX-FORM (800-829-3676).

If you have questions, you can contact the person shown at the top of this letter.

[Redacted Signature]
[Redacted Title]
Supervisory Internal Revenue Agent

Enclosures:
Form 886-A
Form 6018

Form 886-A (May 2017)	Department of the Treasury - Internal Revenue Service	Schedule number or exhibit
Explanation of Items		
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

ISSUE:

Whether the () continues to qualify exemption under Section 501(c)(7) of the Internal Revenue Code (IRC)?

FACTS:

The filed Form 1024, *Application for Recognition of Exemption Under Section 501(a)* requesting exemption under IRC Section 501(c)(7) on , and the was granted exemption in of .

The filed Articles of Incorporation as a non-profit in the state of on , . According to its articles, the purposes of the are as follows:

A.

Form 1024 Statement #1, filed , contains the following description pertaining to its purpose:

- 1) Provide improvement and maintenance of the roads, gateways, public easements, courts, parkways, grass, plots, parking areas, waterways and other facilities within the area known as , .

Form 886-A (May 2017)	Department of the Treasury - Internal Revenue Service	Schedule number or exhibit
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The _____ filed Form 990, *Return of Organization Exempt From Tax* for the year ending _____, on _____. The _____ provided the following statement to describe the organization's mission; '_____, and enforcement of all _____, along with the maintenance of all facilities in the _____ including the maintenance of all assets and their retirement and replacement. Manage various facilities for members (_____, _____, course, clubhouse facility, restaurant and lounge, tennis courts, swimming pool, ponds, _____ and all roads within the _____, etc.

The Form 990 for the year ending _____, also indicates that the main source of revenue for the _____ is derived from membership dues. The highest expenditures per Form 990 was salaries and wages, another significant expense was for maintenance of the _____.

Form 990 Return of Organization Exempt From Tax - Part VIII & IX			
Tax Year	Revenue (Membership dues)	Expenditure (Other Salaries & Wages)	Other Significant Expenditure (Maintenance)
	\$	\$	\$

The _____ provided a description of membership requirements in the following IDR response on _____.

The term "member shall refer to all persons or entities having an ownership interest

A membership is attached to the lot and may not be separated from that lot. _____ person or entity shall automatically become a member of the _____ upon obtaining an

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ownership interest in a lot, excluding _____ property, and shall remain a member until he or she ceases to have an ownership interest in such lot. If title to a lot is held in the name of a trust, the trustee(s) shall be deemed the member for purposes of membership rights and privileges.

The _____ stated in the IDR response that a person becomes a member of the escrow has closed and the purchaser of property on title then in effect becomes a member. No board approval is required for membership the only requirement is to be listed on the property title.

The _____ provided a description of the various facilities it manages in the following IDR response on _____

- A. Roads: The _____, total road mileage is: _____ mi. There is no gating between _____ (maintained by _____ and _____ maintained roads.) Road maintenance encompasses asphalt repair/maintenance, removal of pine needles and debris as necessary, and snow removal during winter.
- B. _____ Center: The _____ center is a full-service, _____ - _____ facility open _____ days a week, offering _____ - _____ usability.
- C. _____ Course: The _____ has a _____ course consisting of _____ acres. It is maintained through a _____ and _____ work schedule performed by _____ hourly employees.
- D. _____ Facility: The _____ has several functions; administrative offices, _____ offices, and environmental control offices. _____ is a private community governed by pre-established rules that include the covenants, codes and restrictions, and the environmental control code. All property owners are provided copies of these documents at close of escrow providing an overview of the requirements and the fees associated with improving property in _____. The environmental control office is responsible for enforcing the provisions of the environmental code works closely with the _____ to provide homeowners a clear picture of what is required when they are building or modifying structures.
- E. _____ : The _____ provides a _____ menu _____.
- F. _____ : Maintenance department ensures that the tennis courts are in good condition _____
- G. Swimming Pool: The maintenance department ensures that the pool is properly maintained.
- H. Ponds: Maintenance of the pools and _____ is the responsibility of the _____ & _____ department.
- I. Contract _____ : _____ is provided at the _____ through an annual contract with the _____ and _____ delivers _____ onsite to members' individual boxes.

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The provided a description of the various services it provides to homeowners in the following IDR response on

- 1) Road Maintenance Service: The maintains miles of roads which also are connected to local is located at . The is accessed by maintained roads.
- 2) : The service for the monitors the safety of the community by the neighborhoods and responding to calls by members. The office is open hours a day, days a week. assists in enforcing rules and regulations and to protect property. officers may also assist if requested in minor emergencies such as bear and other wildlife issues, welfare checks, vacation checks and to request assistance from -responder agencies in times of crisis.
- 3) Transfer Site: The site is an amenity offered to members and their guests to dispose of household trash and recyclables

The initial interview was held on , , with the following boards of directors , Chairman, , Director, , General Manager / Director and , Accounting Manager. During the initial interview the above facilities and services provided by the were discussed. The boards of directors confirmed that the organization is a homeowner's , and its membership is limited to homeowners of the . The is responsible for maintaining residential streets (miles) with access to a , enforcing restrictive covenants, providing patrol services, and trash collection services.

LAW:

IRC Section 501(c)(7) exempts from federal income tax, clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Treasury Regulation in Section 1.501(c)(7)-1(a) states that the exemption provided by IRC Section 501(a) for organizations described in IRC Section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, but does not apply to any club if any part of its net earnings inure to the benefit of any private shareholder. In general, this exemption extends to social and recreational clubs which are supported solely by membership fees, dues, and assessments.

Revenue Ruling 58-589, 1958-2 C.B. 266, stipulates expanded criteria for determining whether an organization qualifies for exemption under IRC Section 501(c)(7). An organization must establish (1) that it is a club both organized and operated exclusively for pleasure, recreation, and other non-profitable purposes and (2) that no part of its net earnings inures to the benefit of any private

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shareholder or individual. To meet the first requirement, there must be an established membership of individuals, personal contacts, and fellowship. A commingling of the members must play a material part in the life of the organization.

Rev. Rul. 75-494, 1975-2 C.B. 214, provides that a club providing social and recreational facilities, whose membership is limited to homeowners of a housing development, will be precluded from qualifying for exemption under IRC Section 501(c)(7) by owning and maintaining residential streets, enforcing restrictive covenants, or providing residential fire and police protection and trash collection service.

TAXPAYER'S POSITION:

The taxpayer's position is agreed.

GOVERNMENT'S POSITION:

The [redacted] is not described under IRC Section 501(c)(7) or Treas. Reg. Section 1.501(c)(7)-1(a) because substantially all its activities are not for pleasure, recreation, or other nonprofit purposes. Its sole activity is the maintenance of a residential neighborhood that maintains streets and facilities, enforces restrictive covenants, provides security services to enforce the [redacted]'s rules and trash collection service.

The [redacted] is similar to the nonexempt organization described in Rev. Rul. 58-589, held not to meet the definition of "club" in IRC Section 501(c)(7), as a substantial part of its activities are not devoted to providing opportunities for its members to engage in fellowship and commingling. The [redacted] is organized to maintain and preserve a residential neighborhood that offers services to its property owners and/or members that are recreational in nature. The [redacted] is not organized substantially for pleasure, recreation, or other nonprofitable purposes as required by Section 501(c)(7).

The [redacted] is similar to the organization as described in Rev. Rul. 75-494 in that a substantial part of its activities are devoted to the maintenance of a residential area and has architectural control over residential properties. The [redacted] does not qualify for exemption under IRC Section 501(c)(7).

CONCLUSION:

In conclusion, the [redacted] has jeopardized its exempt status because it has failed both the organizational and operational tests because a substantial part of its activities includes maintaining a residential area that has architectural control over its residential properties. An organization exempt from federal income tax under IRC 501(c)(7) must be organized and operated exclusively for the purposes described in 501(c)(7). The [redacted] does not further

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pleasure, recreation, and other nonprofitable purposes and, for this reason, does not qualify for exemption under IRC Section 501(c)(7).

Since failed to operate primarily for exempt purposes, its tax-exempt status is revoked effective .

Since will no longer have tax-exempt status beginning , , they are required to file the appropriate Form 1120, as of , .